

Report on Corporate Governance

Introduction

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ('the Code') for which the Board is accountable to shareholders. The Board also takes account of the corporate governance guidelines of institutional shareholders and their representative bodies.

Statement of compliance with the Combined Code

Throughout the year ended 31 March 2009, the Company has been in compliance with the Code provisions set out in section 1 of the Code.

Statement about applying the principles of the Code

The Company has applied the principles set out in section 1 of the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' remuneration report and Audit Committee report.

The Board and its Principal Committees

The Directors believe it is essential for the Group to be led and controlled by an effective Board that provides entrepreneurial leadership within a framework of sound controls which enables risk to be assessed and managed. The Board is responsible for setting the Group's strategic aims, its values and standards and ensuring the necessary financial and human resources are in place to achieve its goals. The Board ensures that its obligations to shareholders and other stakeholders are understood and met. The Board also regularly reviews the performance of management.

The Board currently consists of eight Directors: four Executives and four Non-Executives. The Board considers Tim Clark, Mark Richardson and Jonathan Short to be wholly independent and free from any business or other relationship which could materially interfere with the exercise of their judgement throughout the year.

The Board does not consider that Philip Burks is an independent Non-Executive, given that he was a co-founder of the Group and was an Executive Director from September 1998 until March 2007.

Tim Clark is the Senior Independent Non-Executive Director, replacing David White who retired in July 2008.

Given the size of the Company, and its ownership structure, we believe the proportion of independent Non-Executives to be appropriate.

All the Non-Executive Directors bring considerable knowledge, judgement and experience to Board deliberations. Non-Executive Directors do not participate in any of the Company's share option or bonus schemes and their service is non-pensionable. The biographical details of the Directors of the Group are set out on page 50.

Chairman and Chief Executive

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Board and encompasses the following parameters:

- > the Chairman's role is to provide continuity, experience, governance and strategic advice, while the Chief Executive provides leadership, drives the day-to-day operations of the business, and works with the Chairman on overall strategy;
- > the Chairman, working with the Senior Independent Non-Executive Director, is viewed by investors as the ultimate steward of the business and the guardian of the interests of all the shareholders;
- > the Board believes that the Chairman and the Chief Executive work together to provide effective and complementary stewardship;
- > the Chairman must:
 - > take overall responsibility for the composition and capability of the Board; and
 - > consult regularly with the Chief Executive and be available on a flexible basis for providing advice, counsel and support to the Chief Executive.
- > the Chief Executive must:
 - > manage the Executive Directors and the Group's day-to-day activities;
 - > prepare and present to the Board strategic options for growth in shareholder value;
 - > set the operating plans and budgets required to deliver agreed strategy; and
 - > ensure that the Group has in place appropriate risk management and control mechanisms.

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Board of Directors

Details of the Board and its principal committees are set out below. All of the Committees are authorised to obtain legal or other professional advice as necessary, to secure where appropriate the attendance of external advisers at its meetings and to seek information required from any employee of the Company in order to perform its duties.

Nicholas Vetch	{Executive Chairman}
Philip Burks	{Non-Executive Director}
Tim Clark	{Non-Executive Director, Senior Independent Director}
Mark Richardson	{Non-Executive Director}
Jonathan Short	{Non-Executive Director}
James Gibson	{Chief Executive Officer}
Adrian Lee	{Operations Director}
John Trotman	{Chief Financial Officer}

Company Secretary: Michael Cole

Attendance at meetings of the individual Directors at the Board and its committees is shown in the table below:

Director	Board (7 meetings)	Audit committee (3 meetings)	Remuneration Committee (2 meetings)	Nominations Committee (2 meetings)
Philip Burks	7	–	–	–
Tim Clark *	5	2	1	1
James Gibson	7	–	–	–
Adrian Lee	7	–	–	–
Mark Richardson *	6	2	2	1
David Ross *	4	2	1	2
Jonathan Short	7	3	2	2
John Trotman	7	–	–	–
Nicholas Vetch	7	–	–	–
David White *	1	1	–	–

* Tim Clark and Mark Richardson have attended all meetings held since their appointment to the Board. David Ross and David White attended all meetings prior to stepping down from the Board.

The Board meets on a regular basis approximately once every two months to discuss a whole range of significant matters including strategic decisions, major asset acquisitions and performance. A procedure to enable Directors to take independent professional advice if required has been agreed by the Board and formally confirmed by all Directors.

There is a formal schedule of matters reserved for the Board's attention including the approval of Group strategy and policies; major acquisitions and disposals, major capital projects and financing, Group budgets and material contracts entered into other than in the normal course of business. The Board also considers matters of non-financial risk.

At each Board meeting the latest available financial information is produced which consists of detailed management accounts with the relevant comparisons to budget. A current trading appraisal is given by the Executive Directors.

Each member of the Board is subject to the re-election provisions of the Articles of Association, which requires them to offer themselves for re-election at least once every three years. In the event of a proposal to appoint a new Director, this would be discussed at a full Board meeting, with each member being given the opportunity to meet the individual concerned prior to any formal decision being taken.

Performance Evaluation

Each year the Board undertakes a formal evaluation of its own performance and that of its Committee and its individual members. During the year, the Chairman evaluated the performance of the Executive Directors, and the performance of the Chairman was evaluated by the Senior Independent Non-Executive Director. It was considered that the individuals, the Committees and the Board as a whole were operating effectively, with appropriate procedures put in place for minor areas identified for improvement.

Tim Clark and Philip Burks are being proposed for election at the Annual General Meeting. Following the performance evaluation above, the Committee has determined that their performance is effective, and that they have demonstrated commitment to the role.

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Information and Professional Development

All Directors are provided with detailed financial information throughout the year. On a weekly basis they receive a detailed occupancy report showing the performance of each of the Group's open stores. Management accounts are circulated to the Board monthly, and a detailed Board pack is distributed a week prior to each Board meeting.

All Directors are kept informed of changes in relevant legislation and changing commercial risks with the assistance of the Company's legal advisers and auditors where appropriate. During the year under review, this has included consideration of Directors' responsibilities and the full impact of the Companies Act 2006. The professional development requirements of Executive Directors are identified and progressed as part of each individual's annual appraisal. All new Directors are provided with a full induction programme on joining the Board.

Non-Executive Directors are encouraged to attend seminars and undertake external training at the Company's expense in areas they consider to be appropriate for their own professional development. Each year, the programme of senior management meetings is tailored to enable meetings to be held at the Company's properties. During the year, the senior management team made visits to all of the Group's open stores.

Remuneration Committee

Tim Clark (Chairman)
Mark Richardson
Jonathan Short

The Committee is responsible for determining broad policy for the remuneration of the Executive Directors and the Company Secretary. Within the terms of the agreed policy the Committee will determine the total individual remuneration package of each Executive Director, including, where appropriate, bonuses, incentive payments, pension arrangements and share options. The Committee will select, appoint and set the terms of reference for any remuneration consultants who advise the Committee. The Committee will ensure that the contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is, where appropriate, fully recognised.

The fees of the Non-Executive Directors are reviewed by the Board at regular intervals. The statement of remuneration policy and details of each Director's remuneration is set out in the Directors' Remuneration Report.

Tim Clark and Mark Richardson were appointed to the Committee during the year. David White and David Ross stepped down from the Committee on their resignation from the Board, with Tim Clark taking over from David White as the Committee Chairman.

The terms of reference of the Committee are available on the Company's website bigyellow.co.uk.

Nominations Committee

Jonathan Short (Chairman)
Tim Clark
Mark Richardson

Tim Clark and Mark Richardson were appointed to the Committee during the year. David White and David Ross stepped down from the Committee on their resignation from the Board.

The Nominations Committee is responsible for regularly reviewing the structure, size and composition required of the Board and giving consideration to succession planning for Directors and other senior Executives. Where changes are required, it is also responsible for the identification, selection and proposal to the Board for approval of persons suitable for appointment or reappointment to the Board, whether as Executive or Non-Executive Directors and to seek approval from the Remuneration Committee to the remuneration and terms and conditions of service of any proposed Executive Director appointment. The Chairman of the Committee presents reports to the Board as appropriate to enable the Board as a whole to agree the appointments of new Directors. The committee meets at least once a year and otherwise as required and as determined by its members.

The terms of reference of the Committee are available on the Company's website bigyellow.co.uk. The terms and conditions of appointment for the Non-Executive Directors is available for inspection at the Company's Head Office during normal working hours. They are also available for inspection at the Company's AGM.

Appointments to the Board

In the prior year the Nomination Committee considered the skill set required for the Non-Executive Director to replace David White, who retired from the Board at the Annual General Meeting. The Committee also considered the overall make-up of the Board and decided that it was appropriate to appoint two new Non-Executive Directors; one to act as the Senior Independent Non-Executive Director, and a second to become Chairman of the Audit Committee; both roles to be vacated by Mr White. The Nomination Committee appointed an external recruitment consultant to provide a shortlist of candidates to the Committee. Following a rigorous interview process, the Committee recommended to the Board that Tim Clark and Mark Richardson be appointed to the Board. Tim Clark and Mark Richardson joined the Board during the year.

The Nominations Committee believes the Board benefits from both of these appointments.

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Shareholder Relations

The Board believes that the Annual Report and Accounts play an important part in presenting all shareholders with an assessment of the Group's position and prospects.

The Board aims to achieve clear reporting of financial performance to all shareholders. The Board acknowledges the importance of an open dialogue by both Executive and Non-Executive Directors with its institutional shareholders and communicates regularly with them throughout the year through both formal and informal meetings. The Board also welcomes the interest of private investors and believes that, in addition to the Annual Report and the Company's website, the Annual General Meeting is an ideal forum at which to communicate with investors and the Board encourages their participation. At each Board Meeting, the Board is updated on any shareholding meetings that have taken place, and any views expressed or issues raised by the shareholders in these meetings.

Any queries raised by a shareholder, either verbally or in writing, are answered immediately by whoever is best placed on the Board to do so. Directors are introduced to shareholders at the AGM, including the identification of Non-Executive Directors and Committee Chairmen. The number of proxy votes cast in the resolution is announced at the AGM.

Risk Management and Internal Control

The Directors are responsible for the Group's system of risk management and internal control and for reviewing their effectiveness. The system of internal control was in place throughout the financial year and to the date of this report. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report which is in accordance with revised guidance on internal control published in October 2005 (the Turnbull Guidance). Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Group operates a rigorous system of internal control, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a comprehensive system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board.

In compliance with provision C.2.1 of the Combined Code, the Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of internal audit. The audit committee assists the Board in discharging its review responsibilities.

A formal risk identification and assessment exercise has been carried out resulting in a risk framework document summarising the key risks, potential impact and the mitigating factors or controls in place. The Board have a stated policy of reviewing this risk framework at least once a year or in the event of a material change. The risk identification process also considered significant non-financial risks.

During the reviews, the Directors:

- > challenged the framework to ensure that the list of significant risks to business objectives is still valid and complete;
- > considered new and emerging risks to business objectives and included them in the framework if significant;
- > ensured that any changes in the impact or likelihood of the risks are reflected in the risk framework; and
- > ensured that there are appropriate action plans in place to address unacceptable risks.

The results of the exercise have been communicated to the Board and the Audit Committee. This was in the form of a summary report which included:

- > a prioritised summary of the key risks and their significance;
- > any changes in the list of significant risks or their impact and likelihood since the last assessment;
- > new or emerging risks that may become significant objectives in the future;
- > progress on action plans to address significant risks; and
- > any actual or potential control failures or weaknesses during the period (including "near misses").

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

Report on Corporate Governance (continued)

Internal Audit

The Group does not have a formal internal audit function because the Board has concluded that the internal controls systems discussed above are sufficient for the Group at this time. However, the Group employs a Store Compliance Manager responsible for reviewing store operational and financial controls. He reports to the Group Financial Controller. The Store Compliance Manager visits each operational store twice a year to carry out a detailed store audit. These audits are unannounced and the Store Compliance Manager carries out detailed tests on financial management within the stores, administrative standards, and operational standards. This role has been reinforced in the year, with the appointment of an Assistant Store Compliance Manager, enabling additional work and support to be carried out across the Group's store portfolio. Part of the store staff's bonus is based on the scores they achieve in these audits. The results of each audit are reviewed by senior management.

A summary of the principal risks and uncertainties within the business are set out in the Risk Assessment section of the Business Review from page 12.

Going Concern

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 12 to 23 of the Operating and Financial Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the balance sheet, cash flow statement and accompanying notes in the financial statements. Further information concerning the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk can be found in the Operating and Financial Review.

After reviewing Group and Company cash balances, borrowing facilities, forecast valuation movements and projected cash flows, the Directors believe that the Group and Company have adequate resources to continue operations for the foreseeable future. In reaching this conclusion the Directors have had regard to the Group's operating plan and budget for 2010 and projections contained in the longer term business plan. The Directors have considered carefully the Group's trading performance and cash flows as a result of the uncertain global economic environment, the shortage of credit available in the bank finance market in particular and the other principal risks to the Group's performance and are satisfied with the Group's positioning. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and have also elected to prepare financial statements for the Company in accordance with IFRSs. Company law requires the Directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- > properly select and apply accounting policies;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- > provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Michael Cole

Secretary
15 May 2009